

ENTERPRISE

Part I: Theoretical Aspects

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Part I

Theoretical Aspects

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A. The Capitalist Enterprise

I. DEFINITION AND CHARACTERIZATION

1. *The Enterprise as an Institution of the Market Economy.* — (a) Households and Firms. A typical feature of the modern economic process is the high degree of division of labour among the economic units participating in this process. An important consequence of this fact is the (functional) separation of households and firms. The former produce primarily for the satisfaction of their own demand, as centres of factor supply and expenditure of income, whereas the latter produce to satisfy external demand, functioning as units of factor demand and factor combination, as well as of income formation. Despite lingering differences of opinion the great majority of modern scholars agree in calling a particular type of firm an "enterprise". An enterprise is an economic unit which is primarily profit-orientated and in contractual relation with other units; its activity is autonomous and calculating (Weber, M. *The Theory of Social and Economic Organization*. Ldn, 1964, p.192f. & 163f.), and it possesses power of disposition over the factors of production, which are deliberately acquired on a free, contractual basis.

(b) Firms and Enterprises. The classification of the enterprise as a type of capitalist firm rests on a certain distinction which separates the characteristics of firms into "system-related" and "system-neutral" aspects — elements which are either dependent on or independent of the particular economic system. The dependence of output on a set of production factors and the economical combination of these factors are certainly system-neutral; and the idea that an enterprise must be able, in principle, to maintain financial solvency (i.e. to cover its debts financially) is also system-neutral. On the other hand, the fact that the enterprise takes responsibility for drawing up its own production programmes, the management acting independently of

governmental or other higher authorities, is one of the most important characteristics of a market economy system. This freedom of action extends to the market sphere, the scope of the freedom being determined in the market economy by the activities of enterprises as suppliers and by the needs of the consumer, expressed in the form of bargaining over prices.

Prices are signals of the market situation; they act as a sort of information network, offering guidance for those decisions which the enterprise must make and co-ordinating by means of profit (q.v.) and loss (the criteria of success and failure) the planning of individual firms. Such guidance always has, admittedly, the character of hindsight; it is, however, precisely the *ex post* character of profits and losses which, against the background of the endogenous financial regeneration that is essential to the market economy, induces revision of production and marketing plans. This ultimately results in a redistribution of production factors aimed at satisfying consumer need in a way more in line with the current market. Thus the principle of profit as the controlling instrument of the market mechanism continually sets processes in motion which help to co-ordinate the decisions of individual enterprises with respect to an important aspect of the overall objectives of the economy — namely the optimal satisfaction of private needs. The pursuit of profit by the enterprise must, therefore, also be characterized as system-related.

The exclusive right of the owners, or of their appointed managers, to make internal decisions uninfluenced by others within the enterprise, must be considered a further system-related factor associated with the free market.

Internal and external autonomy and the profit motive — together with the system-neutral characteristics mentioned above — thus characterize the pure form of the capitalist "enterprise".

2. *Characteristics and Definition of the Enterprise.* — The most important characteristics of the enterprise in a market economy can be summarized as follows:

(a) Decisions on the nature and volume of production within the enterprise are ultimately dependent upon the market (see MARKET ECONOMY, Part I). In the larger business units the production process can, of course, be integrated vertically over several successive stages (e.g. in the textile industry: spinning, weaving, dyeing, finishing); but with each stage, the proximity to the market becomes greater.

(b) The principle of entrepreneurial autonomy, under which the control over the economic behaviour of the enterprise rests with the owners or with their chosen management, is generally acknowledged in Western countries. However, it is subject to and, in some cases, considerably modified by social and economic constraints imposed by law.

(c) In enterprises income (q.v.) is determined by market processes; it is distributed among the production factors, on the basis of contracts concluded between

the enterprise and the owners of the factors (see DISTRIBUTION). The profits of the enterprise often revert, as residual income, to the enterprise itself, thus increasing its owners' equity (see PROFIT).

(d) The risks of the market are borne by the enterprise — especially by its general resources of personnel, finance and plant and equipment. Under modern social policy, market risk is above all a financial risk, covered in the main by long-term risk capital (q. v.).

(e) The pursuit of profit is considered to be a necessary condition for the survival and expansion of the enterprise. Profits are the basis of the external and internal financing of entrepreneurial investment (q. v.) — and hence of economic growth (q. v.). Thus, in the market economy, the enterprise assumes the rôle of an efficient accumulator.

All modern definitions of the term "enterprise" are based chiefly upon these five characteristics. Thus it may be said that the enterprise is that unit in a market economy within whose sphere market-orientated and profit-orientated activity takes place in the form of the production and distribution of goods; but it is also here that factor-income creation and, on a substantial scale, private capital accumulation occurs.

II. SIGNIFICANCE OF THE CHARACTERIZATION FOR A GENERAL THEORY OF THE FIRM

Historical succession in the types of enterprise is both the result of upheaval within the economic system and a stimulus to further development of the economic system itself. This is possibly the rationale behind the various attempts to characterize the successive economic epochs in terms of their respective forms of industrial organization. One of these typologies, that of Karl Bücher (A Historical Survey of Industrial Systems. In id. *Industrial Evolution*. Repr. N. Y., 1967, p. 150-84, 1st ed. 1901), differentiates, as the changing forms in which production can be organized, homework, job-work, handicraft, outwork, craft-workshop and factory work. Only home-work, performed to satisfy the worker's own needs, does not come under our first characteristic: production induced by the market. It must be pointed out, however, that all of the types of organization mentioned exist side by side in modern economies.

It is sometimes emphasized (Boulding, *Economic Analysis*, ...) that the enterprise does not actually emerge as an autonomous form of organization until the fundamental distinction between the functions of labour, on the one hand, and the provision of means of production, on the other, becomes pronounced and the ownership of physical capital becomes increasingly important.

Functional separation has gained importance especially in connection with the increase in capital equipment in the successive stages of economic development; another determining factor in this process is the growth in the size of the enterprise — a development which began with the rise of industrialization (q. v.) and which influenced, among other things, the entre-

preneurial function. Parallel to the separation of labour and capital, the general division of labour effected a separation between "labour" (performance of work) and management, beginning chiefly with the spread of outwork. This separation soon spread to the factory, where it found its most pronounced expression in the fact of highly centralized large-scale production: it applies today, in general, to all large enterprises (see CAPITALISM).

Although the second characteristic mentioned above — entrepreneurial autonomy — had traditionally been associated with ownership of the means of production, a trend began, especially in the modern large enterprises, towards a two- or even three-way division of responsibility (cf. Redlich, *Der Unternehmer*, ...). One group of economic agents (capitalists) would, for example, provide business capital; a second group (entrepreneurs) would make the strategic decisions regarding the relations of the enterprise to its "environment" — i. e. regarding its external functions, its position in the market and in the economy as a whole; and a third group (managers) ensures the smooth internal operation of the enterprise. But despite this higher degree of division of labour and of functions, the scope of application of characteristic (b) remains unaffected; the owners still choose those who determine the activity of the enterprise on their own responsibility, although on behalf of and for the account of the enterprise.

Nowhere are the improvements made by capitalism over the medieval forms of economy clearer than in the principles of free choice of occupation, free mobility of labour and individual free contract of service with the right — on the part of both parties — of termination at short notice. (See above: c; i. e. the third characteristic.)

Consequent on the progressively growing division of industrial labour and the development of ever larger units of production a major shift also took place in the forms of remuneration: income in kind was replaced by monetary income, and property income by labour income. In time employment became more permanent, and the original functions of property — particularly its rôle in ensuring a steady livelihood — were transferred to labour income. This served to decrease social mobility, reversing a trend which had begun with the industrial revolution (q. v.). The modern enterprise is, however, not only a place of capital formation and distribution: it is itself, in consequence of the increase of social security contributions and taxes by the state, subject to processes of redistribution as well.

The fundamental recognition of private property and contractual freedom in the market economy serves to emphasize, moreover, that capital formation within the enterprise is subject to the strict rules of competition, risk and liability (see MARKET ECONOMY, Part II).

In a market system there will always be — due not least to the principle of the sovereignty of the consumer, i. e. to the fact that production is controlled by consumer preferences — a considerable degree of uncer-

tainty regarding future market conditions, and hence a higher degree of market risk.

Any act performed in uncertainty involves risks. Generally speaking, decisions in enterprises always result in unexpected profits or losses when, owing to imperfect knowledge of the future, the bases for planning have been too vaguely, or even falsely ascertained. The results of any action on the part of the enterprise will necessarily influence the total amount of capital at its disposal.

Capital profits and capital losses can thus be regarded as the positive or negative equivalents of uncertainty in the income of an enterprise. However, the special function of covering risks the enterprise takes always falls to its basic capital resources, which in this way also influence the propensity to investment (q.v.). The principle of liability should, therefore, assure a careful check of capital arrangements, which will, in turn, increase the probability that production will be in conformity with the market.

An analysis of the sorts of expectations and risks which enterprises have experienced during the process of economic development up to the present shows the following general tendencies (cf. Lowe, A. *On Economic Knowledge*, N.Y., 1965): Uncertainty with regard to what an enterprise might expect in its business ventures was relatively slight so long as enterprises needed to make only short-term plans - i.e. as long as enterprises were small in size and the factors of production were highly mobile. With the industrial revolution and the transition to industrial capitalism, large, highly specialized, indivisible installations and equipment made far-reaching, long-term financial commitments necessary, because of the longer periods of investment and production. The decision-periods for market participants came to extend further and further into an uncertain future. The enterprises tried to cover this increasing market risk financially, raising their prices to allow for uncertainty. Today, in the present period of highly organized capitalism, the future is further obscured and uncertainty in planning increased by a policy of *ad hoc* state intervention in the economic process and by the monopolistic control of centralized markets.

It is sometimes argued that enterprises have themselves been the pioneers in the fight against economic uncertainty. Thus it is claimed that the development of large enterprises has considerably reduced market risk. This statement implies, however, only an apparent refutation of the above remarks: for it actually refers to the quite correct observation that, in view of the above-mentioned changes in the social and economic environment, enterprises are interested in organizing the risk involved in their planning. By influencing risk, they hope to avoid losses and increase their total profits.

The fifth characteristic (pursuit of profit) acquires special importance in connection with the problem of financing an enterprise, i.e. of providing the capital necessary for its operation. The need for short-term capital increases with any increase in the number

of employees or in turnover. When large units are employed in production, there is greater need to provide risk capital in the form of funds tied up for a long period in the enterprise. Today, therefore, there is a tendency - in contrast to the previously prevailing view - to regard self-financing (the reinvestment of portions of profits earned) as an essential requirement for business growth. This is true in general of medium-sized and small enterprises: in periods when the capital market's ability to operate is limited it is true also of large enterprises.

In the market economy external (long-term) finance is arranged through banks and stock-exchanges. In this way the capital needed for projects beyond the financial resources of small and medium-sized enterprises can also be raised (see MONEY AND CREDIT). As Karl Marx realized, a smoother "fusion of a number of capitals already formed or in process of formation" (Marx, K. *Capital*, Vol. I, M., 1961, p. 627) can be achieved through the formation of joint-stock companies. Through the issue of securities the joint-stock company can also attract smaller amounts of capital from all sectors of the economy. The "social invention" of the joint-stock company is frequently referred to as one of the most important achievements of modern industrial society. It guarantees the availability and investment of capital on an unprecedented scale, thus providing the basis for by far the fastest method of increasing the volume of production.

III. THE ENTERPRISE SECTOR IN THE MARKET ECONOMY

1. *The Distribution of Enterprises in a Market Economy.* - An economic organization functioning in a market economy embraces free private law (private property, right of inheritance), freedom of trade, freedom of competition and freedom of contract. This dispositive freedom in the economic sphere, based upon (and regulated by) the law, gives rise to a great diversity with respect to the form which an enterprise may assume.

This circumstance is a direct consequence of the characteristics of the capitalist enterprise (see above: A. 12): In accordance with the degree of profit-expectation, the propensity to take risks, and the availability of resources, the activities of entrepreneurs will fall into various broad areas and will make use of heterogeneous forms of organization of production. From this standpoint enterprises can be classified primarily in terms of economic sectors - mining, industrial, trading and transportation enterprises, for example. Moreover, production can be directed towards the production of one commodity or several (single-product and multi-product enterprises) and can take place in one or several stages. Finally, the size of enterprises (small, medium-sized, large enterprises) can be employed as a criterion for subdivision - a criterion which is, economically speaking, especially important in regard to the conditions for entry (level of capital-endowment necessary).

In addition, the legal form which the enterprise takes (one-man business, ordinary partnership, limited company) may be taken into account.

The general structure of the enterprise sector of a modern industrial society can, by reference to the above characteristics, be sketched fairly independently of any particular moment in time. For West Germany, for example, the census of establishments carried out on June 6, 1961, produced the following results. On the date of the census the total number of establishments was approximately 2.5 million, in which about 22 million persons were employed. The number of enterprises, ascertained on the basis of the turnover-tax statistics of 1962, was approximately 1.7 million. The discrepancy between the number of establishments and the number of enterprises is due primarily to the fact that some enterprises maintain several establishments. The total number of enterprises will, however, actually be higher than 1.7 million, since the turnover-tax statistics do not include taxpayers with turnovers of less than DM 12,500 (less than DM 20,500 for commercial agents and the professions): these lower turnover categories will probably comprise chiefly single proprietorships. The percentages given below for the proportion of one-man enterprises active in the economy as a whole are, therefore, lower than they will be in reality. But even the existing figures show clearly that both in terms of turnover (— 29.8 %) and numerically (— 84.9 %) enterprises in the legal form of single proprietorship predominate. These are followed, in terms of turnover, by "Aktiengesellschaften" (joint-stock companies) and "Kommanditgesellschaften auf Aktien" (companies limited by shares, but having one or more general partners) with 19.1 %, but only 0.1 % in numbers; "Kommanditgesellschaften" (limited partnerships), with 16.5 % and 2.5 %, respectively; "Gesellschaften mit beschränkter Haftung" (private limited companies), with 14.3 % and 1.5 %, respectively; and "offene Handelsgesellschaften" (ordinary partnerships), with 8.7 % and 3.0 %.

The predominant size-of-turnover category is that of DM 1,000 million and more: into this category fall 56 enterprises, comprising 15.1 % of the total turnover (DM 125,000 million). Of these, by far the greater proportion are "Aktiengesellschaften" and "Kommanditgesellschaften auf Aktien".

Thus, on the whole, the one-man enterprise seems to be the prevailing legal form of the smaller production units, while the "offene Handelsgesellschaft" and the "Kommanditgesellschaft" are more representative of medium-sized enterprises, at least in West Germany. The legal forms of "Aktiengesellschaft" (including the "Kommanditgesellschaft auf Aktien") and "Gesellschaft mit beschränkter Haftung" are to be found especially in medium-sized and large enterprises.

In addition to data on the numerical distribution of enterprises, the question of the stability of enterprises, i.e. their life-expectancy, is of key importance in evaluating an economic structure. Six years has been

mentioned as the average life-expectancy of an enterprise (Samuelson). For the USA, at any rate, it has been shown that over an 82-year period less than 20 % of the firms within a particular area survived a 10-year period (Kaplan). A large portion of these were small enterprises which were not joint-stock companies.

Thus, diversity with regard to the structure of the individual enterprise and a process of economic selection (which does not necessarily take the same form at all levels of enterprises) may be viewed as essential characteristics of contemporary Western industrial society.

2. *Large Enterprises and Economic Policy.* — Given a number of basic economic functions (such as production, transport, storage, purchase and sale, lending, services and administration), it becomes immediately apparent that the modern large enterprise can be fully understood only as a "bundle" of such functions. Even granted that a principal function can be determined in each particular case, one finds in many typical cases a combination of functions in which several principal functions are performed together. The following are the basic types of combination: (a) vertical combinations, in which a single enterprise carries on productive activities at various successive production stages which ultimately, but not inevitably, end in a final production stage; (b) horizontal combinations, in which several branches of production, of the same stage and similar products, exist side by side; (c) combinations incorporating complementary products. Frequently each of these types of combination appears within one and the same enterprise. Altogether, then, constellations of enterprises can come into being which exercise considerable market power of supply and demand. The emergence of such positions of power is treated in the theory of economic policy under the heading "concentration" (q. v.).

Business power which enlarges the scope for action of some individual enterprises at the expense of others endangers, however, the proper functioning of the very system of market co-ordination which — as a system of social control and restriction of power — originally gave the enterprise its legitimation for autonomous action (see above: A, I 1b). In its pure capitalist market form, therefore, the enterprise must be distinguished from the *laissez-faire* form which tolerates the development of uncontrolled business power and encourages anti-trust legislation.

Large-scale enterprises combining several functions do not represent the only challenge to competition. Enterprises of any size may try to strengthen their market position against others by means of specific forms of collusion. The cartel, in particular, offers obvious opportunities for monopolistic action. There are various kinds of cartel, according to the extent of the cartel agreements: those which fix only the costs of ancillary services (transport costs, credit terms, etc.); those in which further cost factors are standardized; and those which regulate all cost and price elements. Of this final type of cartel the strongest form is the

"syndicate" or pool, which acts as a single point of sale for all members of the cartel. In the price cartel, as well as in cartels based on quota agreements (in which the quantity produced is fixed), the monopolistic tendency is most pronounced. By manipulating price and supply, the cartel attempts to influence its own profit position at the expense of the customer.

In reality, however, such agreements are not limited to organized cartels. One also finds general agreements between enterprises on joint practices intended to restrict competition as well as special agreements on various other improper restraints on trade (e.g. tying agreements), often imposed by one enterprise upon another by virtue of the latter's dependence upon the former. It is against market-power combinations of this kind that the prohibitive principles of anti-monopoly laws, which have been passed in various forms in the Western countries, are directed. It is, on the other hand, a matter of some controversy whether and under what conditions so-called "defensive cartels" — designed, for example, to deal with structural crises or to facilitate greater efficiency — should be allowed for certain emergency situations; such cartels would in any event be temporary, their existence strictly dependent upon the conditions of the market.

It is increasingly recognized that business concentration is not the inevitable consequence of higher production optima due to advancing technology — i.e. that modern industrial societies of the West are not subject to an inescapable process of concentration. The American anti-trust laws, therefore, exercise a "preventive control" on combination in order to reduce the possibilities of trade restraints developing through business mergers. Such a system of protecting competition by means of law would culminate in a remedial control of abuses, involving possible elimination of the grievance — i.e. the right to introduce deconcentration measures in justified cases. Although many experts consider this final step to be absolutely essential, final solutions of this kind are not yet a reality.

Against the background of these organizational and structural problems of an economy, the alternative cannot lie between large or small enterprises. A market system based on the division of labour must encompass a great variety of forms of enterprise and a considerable diversity in their size. Competition, as a system of social control, takes over the double task of co-ordinating the decisions of individual enterprises and of effecting a division of functions, i.e. assigning different kinds of market function to different agencies. Since, as already pointed out, the enterprise assumes the rôle of efficient accumulator in this process, an optimal distribution of enterprises with respect to size and structure will always depend upon the efficient functioning of an economy's financial sector as well.

It follows that the form which the business sector of a market economy takes in each case is a direct reflection of the definitive ideas held by those in

political authority. For any understanding of the phenomenon "capitalist enterprise", therefore, one needs to know that (and in what way) the enterprise is embedded in a social structure — a social structure based on interactions not only among enterprises themselves but also between enterprises and (domestic and foreign, private and public) customers and grounding ultimately in social institutions (such as the monetary and banking system, or the legal system) and the norms of society.

B. The Socialist Enterprise

I. POSSIBILITIES OF DEFINITION

1. The Enterprise in the Marxian Critique of Capitalism. — In his analysis of capitalism Marx attaches key importance to productive economic units. Even as early as the *Communist Manifesto* (1848) Marx and Engels see the factory as the typical expression of capitalist division and combination of labour. The conflicts inherent in the capitalist mode of production (q.v.) attain, according to Marx, their crassest and most concrete form in capitalist enterprise. Viewed sociologically, production is seen as the gathering of masses of workers together in a factory; exploitation (q.v.), first analysed by Marx in abstract terms as the appropriation by the individual capitalists of the surplus value (q.v.) created by the workers, comes also to be understood as a system of personal domination exercised in industry:

"Modern industry has converted the little workshop of the patriarchal master into the great factory of the industrial capitalist. Masses of labourers, crowded into the factory, are organised like soldiers. As privates of the industrial army they are placed under the command of a perfect hierarchy of officers and sergeants. Not only are they slaves of the bourgeois class, and of the bourgeois State; they are daily and hourly enslaved by the machine, by the over-looker, and, above all, by the individual bourgeois manufacturer himself. The more openly this despotism proclaims gain to be its end and aim, the more petty, the more hateful and the more embittering it is" (*Manifesto of the Communist Party*. In *Marx, Engels SW*, vol. I, p. 41).

This reference to the militaristic organization of production under early capitalism has rarely been given the attention it deserves.

Marx made the development which productive forces underwent in the capitalist enterprise the subject of exhaustive theoretical studies, particularly in the first volume of *Capital*. Historically speaking, the interaction between the unceasing development of productive forces (q.v.) and the production relations (q.v.) in an economy is the governing factor in the rise of the "factory system":

"In acquiring new productive forces men change their mode of production; and in changing their mode of production, in changing the way of earning their living, they change all their social relations. The handmill gives you society with the feudal lord; the steam-mill society with the industrial capitalist" (*Marx, The Poverty of Philosophy*, . . . , p. 109).

Technologically, on the other hand, the savings which resulted from the combination of individual jobs and the use of modern means of production (q.v.) are the chief factor in the evolution of the large capitalist firm, according to Marx. This process is bound up with the concentration (q.v.) of ownership in the hands of fewer and fewer capitalists and, therefore, with increasing (relative) impoverishment (q.v.) of the working class. Marx carefully examines this process in the now famous Chapters 13 ("Co-operation"), 14 ("Division of Labour and Manufacture") and 15 ("Machinery and Modern Industry") of Volume 1 of *Capital*. For him, the growth of capitalism — and of the capitalist enterprise upon which it is largely dependent — is a process in conflict with itself: on the one hand the state of the productive forces (especially the technology of the economy) in the capitalist enterprise is decisively improved and developed; on the other hand this causes the production relations to come into increasing conflict with the developed, social productive force of labour.

The crucial factor in Marx's analysis is his complementary treatment of technological and sociological problems: he considers the socially *and* technologically determined relations between people in production (q.v.). In contrast to the view of Adam Smith, labour, as a co-operative relation, is not only the outcome of technologically-induced division of labour; it has a very important social aspect, as well. Following Marx's system, three forms of division of labour can be distinguished which are connected directly or indirectly with the way in which the law of value operates under capitalism (see also VALUE, LAW OF VALUE and ECONOMIC THEORY). *Social* division of labour — i.e. the distribution of total labour among sectors, trades and industries, plants and products — follows directly from the law of value, but does not directly determine the social position of the individual "producer" within the sum total of labour. This is the function of a *technological* division of labour, due to the subsumption of man under the machine, whose sole purpose — to increase relative surplus value by intensifying labour and raising its productivity — follows from the competition between various capitals. Thus the isolation of the worker and the moral and physical debilitation which result from highly divided labour are not an inevitable consequence of technology as such, but of the special forms it takes in the capitalist process of exploitation. Finally, the discipline required for the smooth operation of this process is provided by the capitalist form of *scalar* division of labour — i.e. according to the various specific levels of power within the hierarchy of the capitalist enterprise. This form of division of labour is particularly manifest in the distinction made between manual and mental work, between the performance of work and its supervision.

According to Marx the social conflicts of capitalism express themselves as industrial conflicts: the division and the combination of labour assume specifically capi-

talist forms — shown, for example, in the conflict between the functional division of labour, which technological development requires, and the hierarchical system which serves to maintain the appropriation and accumulation of private profit and is thus, in the last analysis, an expression of antagonistic relations in production.

2. *Possibilities for the Analysis of Socialist Enterprises.* — Marx and Engels never systematically analysed the principles under which socialism (q.v.) and communism (q.v.) function: they were more interested in analysing individual problems of post-capitalist societies at various levels of abstraction. Thus Marxist theory of the socialist enterprise has no well-formed theoretical concepts at its disposal. Such a theory must, instead, work out the specific character of the socialist enterprise *a negativo*, as it were, proceeding from the Marxist critique of capitalism. Thus, of the three moments in the dialectical process (thesis, antithesis, synthesis), the aspect of antithesis (negation) is given special emphasis; this seems a rather dangerous procedure, which can hardly result in an unequivocal solution. Nevertheless, the following points can be stated for a Marxist theory of the enterprise:

(a) Only under capitalism does there exist, according to Marx, an irreconcilable conflict in the social structure between management and employees. This does not mean, however, that industrial conflicts do not exist under socialism: only that they are, in principle, soluble. There thus remains, in other words, room for a (Marxist) theory of the socialist enterprise and for a sociology of the enterprise on Marxist principles (see INDUSTRIAL SOCIOLOGY).

(b) An analytical distinction is both necessary and possible between those structural characteristics of the enterprise which are system-related (those, for example, which follow from the system of ownership and social order of a society), and those which are a product of technology and are hence essentially system-neutral (e.g. automation and flow-line production). Dissenting from the view of the Italian anarchists, Engels stresses the relations of authority and subordination that result from industrial technology:

"The automatic machinery of a big factory is much more despotic than the small capitalists who employ workers ever have been. At least with regard to the hours of work one may write upon the portals of these factories: *Lasciate ogni autonomia, voi che entrate!* If man, by dint of his knowledge and inventive genius, has subdued the forces of nature, the latter avenge themselves upon him by subjecting him, in so far as he employs them, to a veritable despotism independent of all social organisation. Wanting to abolish authority in large-scale industry is tantamount to wanting to abolish industry itself, to destroy the power loom in order to return to the spinning wheel" (On Authority. In *Marx, Engels SW*, vol. 1, p. 637).

In these brief statements concerning a hypothetical socialist enterprise, industrial control is seen to be necessitated mainly by certain technological considerations. This approach does not, despite appearances, contradict Marx's notion of an "association of free pro-

ducers" under socialism, since Marx, too, sees the system-neutral aspect of the combination of industrial labour, as distinct from its specifically capitalistic form.

"All combined labour on a large scale requires, more or less, a directing authority, in order to secure the harmonious working of the individual activities, and to perform the general functions that have their origin in the action of the combined organism, as distinguished from the action of its separate organs. A single violin player is his own conductor; an orchestra requires a separate one. The work of directing, superintending, and adjusting, becomes one of the functions of capital, from the moment that the labour under the control of capital, becomes co-operative. Once a function of capital, it acquires special characteristics" (Marx, K. *Capital*. Vol. I, M., 1961, p. 330f.).

(c) A Marxist analysis of the enterprise is possible only within the framework of general political economy (see *ECONOMICS — POLITICAL ECONOMY*) and of historical materialism (q.v.); the interactions between production relations and the state of development of productive forces cannot be analysed adequately at the level of the individual enterprise, although they appear there with particular prominence.

At present there is no even moderately complete Marxist theory of the socialist enterprise to match the thorough theoretical and historical study of its capitalist counterpart in the works of Marx and Engels. The breakdown of the various functions of the firm, and the methods and categories used in the analysis, are largely the same as those of Western business management theory.

II. DECISION-MAKING IN THE ENTERPRISE

1. *The Framework for Decision-Making.* — If the socialist enterprise is conceived as an independently producing economic unit, the following questions are important for determining its decision-making processes: (a) How wide is the individual enterprise's scope for decision and action, and what determines this scope? (b) What qualitative and quantitative goals govern the actual decisions of the enterprise? (c) How can the planning of the individual enterprise be reconciled with central planning; regional planning with sectoral planning; and, finally, short-term with long-term planning? (d) According to what principles are decisions made within the enterprise, and how are the departmental decisions of the enterprise co-ordinated?

In order to determine the scope which the different production units enjoy in their decisions, we must first know what the basic mechanism of allocation is (market or plan) and what legal position the individual enterprise occupies. The East German *Ökonomisches Lexikon* defines the enterprise (*Betrieb*) as a

"techno-economic, juridical form of organization of the co-operation between labour and means of production in the system of social division of labour for the production of producer and/or consumer goods, the provision of services, for transport and/or trade... It is the lowest independent unit within the system of the economy as a whole... As legal entities, enterprises are subject to the various rights and obligations which correspond to their form of ownership. In so far as they have a legal personality of their own, they

are subject to civil law" (*Ökonomisches Lexikon*, Bd 1, p. 322).

Thus, although the autonomy and contractual freedom of the socialist enterprise are recognized, the actual form that these principles take in practice depends largely upon the scope of the rules laid down in the form of laws or plan-data by the government or central planning authorities, as well as upon the planning practice that has evolved. Data on the scope of the autonomy enjoyed by the enterprise are still very inexact and are, in some cases, rather conflicting, owing to the frequent amendments to legal provisions (see below: Part II, Section B). The East German *Wörterbuch der Ökonomie* mentions the following bases of the activity of enterprises under socialism: (a) the political power of the working class and its allies; (b) the power of the socialist state; (c) the indivisibility of socialist ownership; (d) the development and improvement of the economic rôle of the state on the basis of "democratic centralism" (q.v.), with direct participation by workers in planning and management; (e) constant revision of the central plan combined with the independent responsibility of socialist producers in line with the State Plan (*Wörterbuch der Ökonomie*, . . . , p. 140).

These norms of the activity of socialist enterprises, described in a similar way in other publications, are quite generally observed. The degree to which they are binding and the form they take when converted into detailed regulations for actual industrial practice determine whether the firm will have what is essentially only an executive function (operative powers of decision) or an autonomous decision-making function as well (dispositive decision-making powers); in the latter case the general norms are broadly understood as mere restrictions.

If we consider the goals set for the socialist enterprise — production output meeting the demand at minimum costs; high quality and profitability; independent execution of the reproduction process within the framework of the enterprise's range of responsibility; protecting the employees' health and socialist property within the enterprise; the improvement of socialist working and living conditions — then it becomes obvious that operative powers of decision do not suffice for achievement of the projected goals. One may reasonably assume that the central planning authorities lack complete information on the particular situations of the individual enterprises; the advantage that the enterprise has in regard to this information cannot, however, be utilized with a view to the above objectives if the enterprise remains confined to mere execution of the central plan, i.e. to merely operational powers of decision (see *SOCIAL AND ECONOMIC POLICY*, B).

The question of information and communication is generally crucial for the position of the enterprise in the socialist economy. This is true not only in regard to the unusual possibilities for co-operation given in socialist economies (the capitalist "trade secret" has no place in relations between socialist firms), but also

in regard to the specific problems that accompany an *ex ante* co-ordination of the activities of individual enterprises through overriding plans at a higher level (instead of market relations). An important cybernetic problem here is the optimum co-ordination of the information possessed by the individual enterprise and the central planning agency, and their mutual feedback; put simply, it is a question of utilizing, in overall economic planning (q.v.), both the knowledge of the macro-economic effects of the enterprise's activity possessed by higher authorities and the special information possessed by the individual enterprise on its own situation (see CYBERNETICS).

The conversion, by the enterprise, of the above-mentioned norms and objectives into decisions is governed especially by the following factors:

(a) By the decision-making hierarchy within the enterprise, and especially by the form in and extent to which employees participate in management decisions. These arrangements differ considerably in some cases — not only from country to country (the workers' self-management system in Yugoslavia: so-called "democratic socialism" in most of the other countries) but also within the different economic sectors of a single country (in East Germany, for example, a highly hierarchical system of organization in the people's enterprises compared with co-operative organization in the agricultural production co-operatives and handicraft production co-operatives).

(b) By the enterprise's production function. The production function of the enterprise can be primarily instrumental — if, for example, in a system of material incentives the maximization of the enterprise's bonus(es) is used as a means of praisefulment; but it can also be the outcome of, and prerequisite for, largely autonomous decision-making — if, for example, in enterprises organized on co-operative lines, or in enterprises with workers' self-management, maximization of the workers' *per capita* income governs the enterprise's actions as the fundamental decision-making rule, with central planning being restricted, on the whole, to a merely qualitative function.

(c) By the objective conditions with which the enterprise is confronted. These include especially the availability of the means of production, of labour, funds and information.

2. *Enterprise Goals and Plan Co-ordination.* — Compatibility between central planning and operational planning in alternative organizational systems is still a matter of controversy in the literature. Benjamin Ward (*The Planner's Choice Variables, ...: The Socialist Economy, ...*) deduces from a static model of bonus-maximization possible incompatibilities between central planning and operational policy. The amount of bonus here depends (a) upon the degree of quantitative plan-fulfilment or over-fulfilment for all inputs and outputs, (b) upon the return on capital employed (alternatively: upon the level of profits or saving in costs) and (c) — in accordance with the traditional ob-

jective in the extensive phase of economic planning — upon the value of gross output. The major difficulty in this sort of system is that targets are set for both prices and output-quantities and that the system is thus fundamentally overdetermined (on account of the duality between optimum quantities and prices). Very similar difficulties in balancing the micro-economy and the macro-economy exist under capitalism, both in economic theory (q.v.) and in industrial practice, owing to the increasing monopolistic power of large enterprises which attempt to fix both prices and quantities through control of the market, sales planning and sales promotion (option fixing). In such cases the existence, uniqueness and stability of any (plan or market) solution become questionable.

A view different from that of Ward is put forward by, for example, R. D. Portes (*Enterprise under Central Planning, ...*), who concludes, on the basis of a model with a different structure, that in certain circumstances compatibility between central and operational planning is best assured by means of highly comprehensive central planning. This complex controversy can probably not yet be definitively arbitrated, for the models employed in each case do not yet correspond sufficiently to reality.

Another important aspect of the relationship between central and operational planning lies in the problem of information, already mentioned. Enterprises do not usually have at their disposal the information necessary for the formulation of production and price policies that would meet the demands of the economy as a whole: the central planning authorities do not, on the other hand, possess adequate knowledge of the particular situation of the individual enterprise. To solve these problems, Edmond Malinvaud (*Decentralized Procedures for Planning, ...*), K.J. Arrow and L. Hurwicz (*Decentralization and Computation in Resource Allocation, ...*), Clopper Almon (*Central Planning without Complete Information at the Center, ...*) and G.M. Heal (*Planning without Prices, ...*) among others have evolved models for balancing and adjusting the plan on the basis of the theory of general economic equilibrium and the mathematical theory of programming. These models generally assume the initial fixing of prices (or quantities) by the central authority and corresponding reactions of the individual enterprises, which then result in the revision of plans by the central authority and the result quantity (or price) reactions of the enterprises. The macro-economic optimum — or a state considered satisfactory — is thus reached through a sequence of iterations which, under certain mathematical conditions, converge towards a desired terminal state: the decisions of the enterprise become more efficient in each round of planning (see ECONOMIC THEORY). Because of the costs and time involved, the number of planning steps may not, in reality, be very large. As a rule, therefore, the planners rest content with approximate solutions and employ those iteration

procedures that converge most quickly. Although iteration methods are commonly used in the Soviet Union (cf. Aganbegian, Granberg, *Ekonomiko-matematicheskii analiz*, ...; see also CIRCULAR FLOW), the models of plan adjustment sketched above have not yet been put into practice.

A further method, which has been used to achieve consistent planning between the sectors and the central authority — but which could, in principle, also be used for the co-ordination of operational and/or central planning — has been worked out by János Kornai and Tamás Lipták (*Kétszintű tervezés*, ...; Two-Level Planning, ...), based upon a game-theory formulation of the problem.

It is widely recognized today that market and commodity relations between socialist enterprises and consumers can improve and supplement decisions made centrally (Gergely, *Plan u. Markt*, ...). The production of goods under socialism is, in fact, no longer considered by some writers to be a relic of capitalism; it is viewed as an independent economic aspect of socialism with its own inherent laws (Breuer, *Warenproduktion u. Sozialismus*, ...). In this case the problem of the "market reaction" of the socialist enterprise arises. The traditional theory of market socialism (Lange, *On the Economic Theory of Socialism*, ...) applied the theory of perfect competition to the behaviour of the socialist enterprise (see MARKET ECONOMY and PRICES). According to this theory a (static) optimum is reached under certain conditions when enterprises adjust their output to the parametrically given prices, in such a way that the additional costs per unit of output exactly equal the price fixed centrally. In this case the behaviour of the socialist enterprise corresponds to that of an equivalent capitalist enterprise in the model of perfect competition (i.e. without the possibility of any one party's exercising monopoly power). Similar types of behaviour occur if, in order to stimulate production to meet demand, the maximization of the total enterprise fund (see below: Part II) is taken as one of the "targets" of the enterprise: in general, rising prices will result in an expansion of production. If, on the other hand, the maximization of *per capita* income is assumed in enterprises organized on co-operative lines, with workers' self-management (Ward, *Ilyria: Market Syndicalism*, ...; Domar, *The Soviet Collective Farm* ...; Vanek, *The General Theory of Labor-Managed Market Economies*, ...), then anomalous market reactions can occur. The reason for this phenomenon is that with *per capita* maximization of profit, elasticities of supply are low or even negative, and the reactions of the enterprise to price changes are only very slight or even perverse. In certain circumstances an increase in price even results in smaller supply by the enterprise — a reaction undesirable for the economy as a whole.

These problems will be briefly explained on the basis of an oversimplified model. Let us consider a firm which offers a product x for sale at the given (market or plan) price p and of which the capital resources K

are fixed, priced at a fixed (market or plan)-rate of interest r . Let the only variable input be labour (L). We thus get the production function (1) profit *per capita*

$$\frac{px - rK}{L} \quad \text{max.},$$

in which the output x depends upon the variable input, labour (L), and the fixed factor, capital (K). Since the capital resources in the period under consideration remain unchanged, we obtain the optimum by taking the derivative of (1) with respect to L and equating with zero. This gives (2) $p = \frac{rK}{x - \frac{dx}{dL}L}$,

the mathematical equation expressing the enterprise's variable willingness to supply. In order to determine the firm's reaction to price changes, equation (2) is derived for L and we get (3)

$$\frac{dp}{dL} = \frac{rK \left(\frac{d^2x}{dL^2} \right)}{\left(x - \frac{dx}{dL}L \right)^2} < 0.$$

if the law of diminishing returns applies (i.e. if $\frac{dx}{dL} < 0$). Since, in addition, an increase in the labour force L results in an increase in output x , it follows that (4)

$$\frac{dp}{dx} < 0,$$

i.e. the firm reacts to price increases by reducing supply. It can easily be proved that, other conditions being equal, the firm would increase its output when prices rise, if — as is customary — maximization of absolute profit is assumed. It would be wrong, however, to conclude from the mere possibility of anomalous reactions that a socialist market economy would be inherently instable (cf. Vanek, *op. cit.*).

Moreover, the question of alternative objectives does not arise only for socialist enterprises. In discussions in the West as well objectives other than the traditional maximization of profits are mentioned — be it in order to obtain a more realistic picture of the system of operational objectives as a whole, be it with a view to the normative aspect of other operational objectives. Since these discussions can be relevant to an understanding of socialist enterprises as well, we shall briefly enumerate a few alternative objectives:

Frequently connected with the postulated shift of the power of decision from the owners of the capital to the managers of the firm is the notion that profit retains only the character of a constraint and that other objectives — maximization of turnover, for example, acquisition of market positions and positions of power, general growth of the enterprise — or even a combination of not necessarily congruent objectives (objective systems, multi-objective programming) would have priority. Particularly important here is the thesis of "satisficing behaviour" formulated by R. M. Cyert and J. G. March (*A Behavioral Theory of the Firm*, ...) according to which the firm sets itself, or is set, certain short-term targets which it attempts to achieve; a possible revision of the objectives for the next period

is then decided upon according to the results and the degree of fulfilment attained. If major divergences appear in the short-term objectives, then in certain circumstances the long-term planning of the firm must also be revised. This theory can be regarded as an operationalization of the maximization of long-term profit, defining the different approximation-steps to the long-term optimum; on the other hand, it is regarded by some writers as an alternative to profit-maximization. The theory of satisficing behaviour can also be applied to the socialist enterprise – for example, in order to explain the enterprise's reaction to overriding plans and the revision of plans.

III. ORGANIZATION AND OPERATION OF SOCIALIST ENTERPRISES: EAST GERMANY

1. *Organization of Industry.* In contrast with handicraft, agriculture and retail trade, where considerable proportions of the wealth produced still come from the private and co-operative sector, the socialization (transfer to the people's ownership) of the means of industrial production is almost complete in East Germany. About 86% of industrial production in 1968 came from state enterprises (people's enterprises), 2% from co-operative enterprises, 10% from semi-governmental enterprises (in which the capital-holding of the state amounts to at least 50%, usually in the form of a limited partnership in which the state, with its share of the capital, is a limited partner) and about 2% from purely private industrial firms. The percent-

ages of the Gross Social Product produced by enterprises of these various forms in each of the economic sectors (1963) are shown in the following table:

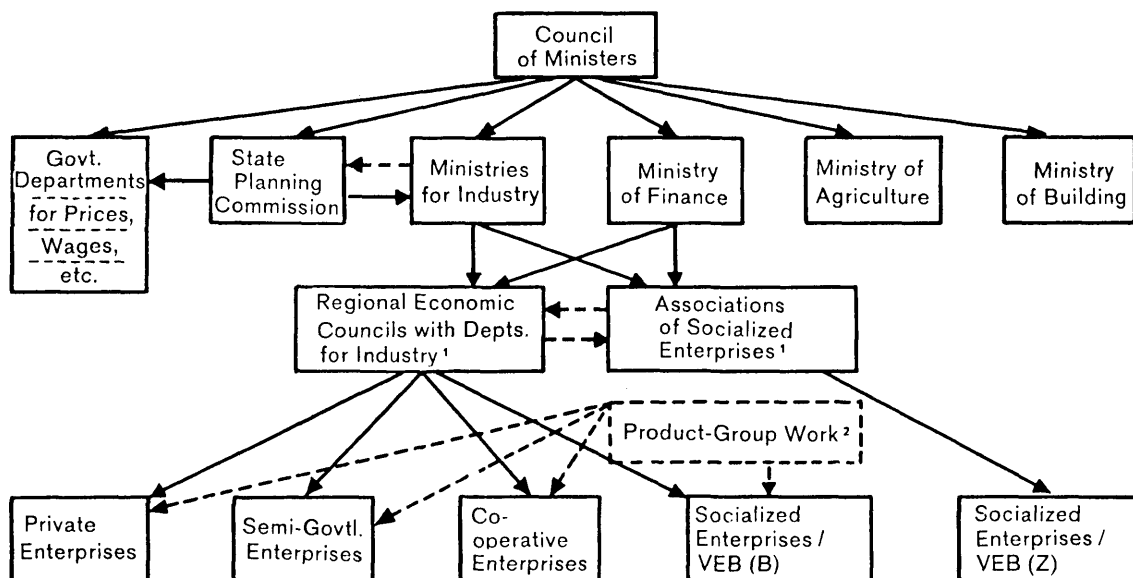
	Industry	Handicraft	Agriculture & Forestry	Commerce
People's enterprises (state-owned)	85.4		16.7	38.6
Co-operatives	3.4	29.8	72.6	42.6
Semi-state-owned	8.8			7.7
Private	2.4	70.2	10.7	11.1
	100	100	100	100

Source: Germany, Federal Republic. Bundesministerium für Gesamtdeutsche Fragen. Forschungsbeirat für Fragen der Wiedervereinigung Deutschlands. *Tätigkeitsbericht*, 4, ... p. 30.

There have been major shifts since 1963 especially in the handicraft sector, where the handicraft production co-operatives achieved a share of about 48% in 1969.

The non-socialist sector in industry can be disregarded in what follows, not only on account of the small percentage that it represents, but also because it is fully integrated into the planning system of the DDR through contractual obligations (e.g. consignments). The economic reforms of the "New Economic System of Planning and Management" and its successors ("Economic System of Socialism", "Economic System 71") brought several changes in the planning and management structure of industry. The following schematic representation is intended to illustrate the present organizational structure with its different decision-making levels:

Simplified Diagram of Industrial Organization in East Germany



1) There are about 85 Associations of Socialized Enterprises, with 1,700 "centralized" socialized enterprises under them: these produce about two-thirds of the total industrial output. The remaining 13,000 enterprises come under the regional economic councils ("Bezirkswirtschaftsräte").

2) "Vertical team-work" is based upon voluntary co-operation between industrial firms subject to the same or

different conditions of subordination and forms of ownership, under the management of a controlling firm or one of the 85 "Associations". Its task is to combine suppliers for particularly important (internationally marketable) products.

→ indicates relations of subordination
- indicates relations of co-ordinations (e.g. information flows)
Source: *Wörterbuch der Ökonomie*, ...

2. *Management Structure and Social Structure of the Enterprise.* According to the Marxist-Leninist view social, technical and economic relations within the enterprise are governed chiefly by the relations of production in each particular case; in East Germany these would, of course, be primarily socialist. The social structure of the firm is conceived as a relatively independent sub-system within the framework of the economy as a whole and in relationship to other sub-structures (e.g. infra-structure, structure of consumption, etc.):

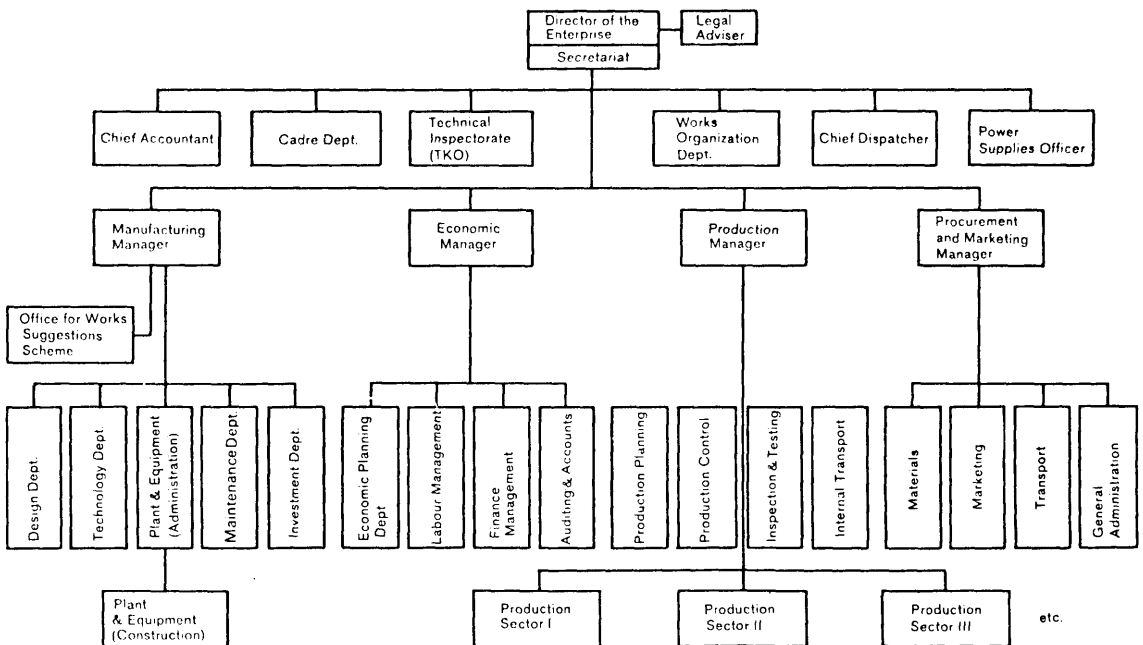
"The actual forms taken by these structures, their qualitative break-down and quantitative proportionality to an overall social structure, are at the same time a problem of the forms taken by the various social structures in relatively independent production units; for the process of social reproduction is a combination of subjective and objective factors which work as a unity, coinciding especially in the sphere of labour and, again, chiefly in the enterprise. Under conditions of socialist production and life, the subjective factor is the most important productive force. People and the social relationships that emanate from them and are manifested within a given social structure, are the subject of socialist production; and, in the last analysis, there are in production no processes that do not involve social relations between human beings" (*Wörterbuch der Ökonomie*, ..., p.430).

Although the participation of the labour force in the decision-making and planning process of the enterprise is a general postulate of socialism, the forms which this participation will take are not formally spelled out: it occurs chiefly in an informal way at different levels (works party organization, works trade-union organization, production committee, etc.). The most important statutory regulations are contained in the "Labour Code of the German Democratic Republic" (*Gesetzbuch der Arbeit der Deutschen Demokratischen Republik*, Bln[O], 1966). According to Clause 10a the "production com-

mittee" is elected by the workers and performs a supervising and advisory function in the enterprise, operating within the framework of Party resolutions and of the laws, decrees and resolutions of the appropriate bodies (People's Chamber, Council of State, Council of Ministers). The management structure in the fully socialized enterprises, on the other hand, is largely governed by the principles of "democratic centralism" (q. v.), which here takes the form of the "principle of one-man management" by the director. The different functions and the authority to make decisions and give directions are broken down chiefly on the basis of a vertical division, supplemented by a partly functional assignment to the respective line departments (technical management, economic management, production, procurement and marketing etc.) and a special staff under the director (e.g. cadre department, works organization, works suggestions scheme). The director enjoys, in accordance with the principle of one-man management, considerable autonomy: this is complemented by the principle of collective consultation with personnel, party and other social organizations. However, since all fundamental decisions are already made at the macro-economic, "perspective" level, the enterprise's scope for decision-making is largely confined to operative decisions designed to implement the plans.

The management structure of a large enterprise in the DDR is illustrated in the following diagram, taking as an example a material-processing firm (see below).

An important part of the social structure of the enterprise in the DDR is comprised by its various social welfare institutions and services. In addition to measures which help directly to promote productivity, such as accident prevention, health and medical bene-



Source: *Ökonomisches Lexikon*, Bd 2, Bln[O], 1967, p. 315.

fits and services, and kindergartens and nurseries, the enterprise also performs various general social functions such as arbitration in private disputes, the organization of cultural and sporting events, and further education and training. In addition, the enterprise entertains co-operative relations, often on a contractual basis with universities, colleges and other educational institutions. The theoretical foundation for this emphasis on the social functions of the socialist enterprise is the importance of production (q.v.) and of labour (q.v.) for the individual and collective development of man in Marxist analysis. However, the tendency – observable not only in the DDR – to confine the activity of the trade unions to social functions, within the enterprise and without, conflicts with Lenin's idea of trade unions as soviet-type organizations to represent worker's interest (*Lenin CW*, vol. 28, p.439, where he describes the trade unions as "the most important builders of the new society"). Despite the indisputed benefits of these welfare services of the enterprise, there are also disturbing effects, such as strong attachment to the firm, resulting eventually in immobility of labour. Moreover, there is the danger that excessive intrusion on the part of the enterprise into the private lives of the workers will elicit a defensive reaction.

Certainly, the scope of the social functions and services of a socialist firm generally outstrips that of the welfare activities of comparable capitalist enterprises; but similar developments can be observed in many Western countries – especially under the influence of a chronic labour shortage. Although, in general, the welfare services of the capitalist enterprise are, from the prevailing viewpoint of long-term acquisition of manpower, in conflict with the short-term growth of profits (and must often be cut back in light of a change in the economic situation – as in the 1966/67 recession in the West Germany), the differences between the social welfare functions of the enterprise under advanced capitalism and those under socialism – though considerable – are only of a quantitative nature.

C. A System-Neutral Theory of the Firm: Its Possibilities and Limitations

Most activities of the enterprise concern different aspects of purposive action (in Max Weber's sense), and can therefore be considered from the standpoint of "praxiology" (Lange, *Ekonomia polityczna*, ...). Far-reaching agreement exists on the methodological basis and even on the findings of enterprise theory – particularly in an approach of partial analysis, in which the decision-making rules and the constraints are taken as given for the enterprise. From this limited standpoint, many findings of micro-economic theory and of the science of management (see BUSINESS ADMINISTRATION) too – as well as other fields of the economic

and social sciences – can contribute to an understanding of the economics of the socialist enterprise and can accordingly be integrated in a Marxist theory of enterprise. In this sense one can in fact speak of a system-neutral theory (see above: A, I).

However, this approach is inadequate, for two reasons: The confinement to the praxiological aspect of entrepreneurial activity – i.e. especially the unexplained disregard for factors and arrangements external to the enterprise, and hence of the macro-economic implications of micro-economic activity – is untenable in many questions: it is as poorly suited to the determination of investment policy or to the co-ordination of short- and long-term planning of enterprises, as it is to the investigation of the interactions between different enterprises. Thus, even when the investigation is confined to economic processes, the underlying organization of society must be considered.

But confinement of the praxiological approach to techno-economic factors is, particularly in the case of the socialist enterprise, a methodologically indefensible restriction of the object of study. According to Marxist theory, the socialist enterprise must serve not only material production, but also human self-realization and the self-realization of society in its labour. According to the Western interpretation, too, the enterprise is not only a productive economic unit, but also a social entity, "a spatial and social entity, in which a greater or lesser number of people work and live together within an organization influenced internally and externally by technical, economic, organizational and social factors and processes" (Neuloh, *Die deutsche Betriebsverfassung u. ihre Sozialformen bis zur Mitbestimmung*, ... , p.22). The specific character of a socialist enterprise is due especially to the unique social relations within the enterprise and in the economy as a whole, which is a consequence of the changed production relations. Thus, according to Marxist analysis, under socialism the incompatibilities within the enterprise are eliminated, and any existing or emergent conflicts are in principle resolvable.

The primarily theoretical question as to whether or not the conflicts are resolvable is not, however, essential to the evaluation of the socialist enterprise. What is crucial is the question whether conflicts internal to the enterprise in a socialist country can be resolved effectively and democratically. The primarily hierarchical organizational structure of the enterprise and the extensive lack of formal rights to a say in control for the workers (which is explained away with reference to the existence of socialist ownership – not entirely convincingly) are certainly in contrast with Marx's ideas of socialist production in a "community of free individuals, carrying on their work with the means of production in common, in which the labour-power of all the different individuals is consciously applied as the common labour-power of the community" (Marx, K. *Capital*, Vol. I, M., 1961, p. 78). Seen in this light, the Yugoslav model of workers' self-management seems to

offer a closer approximation to the ideal of communist production than the hierarchical works organization that still exists in most socialist countries; on the other hand, the market-orientated co-ordination of the bulk of producers' decisions contradicts, in a way, Marx's postulate of the elimination of commodity fetishism in the communist mode of production.

The Chinese model of agricultural and industrial production — little known until recently — is also becoming increasingly important for the further development of socialist theory and practice. Emphasizing the spontaneity of the workers and non-material incentives (which even include, for instance, the individual worker's estimation of his own performance), and also introducing new kinds of living relations and production relations (e.g. people's communes), this model is attempting already to anticipate elements of a communist society (cf. Bettelheim et al., *La Construction du socialisme en Chine*, ...).

In the capitalist market economies, on the other hand, the safe-guarding of social welfare and individual jobs lies largely in the hands of private enterprises which are almost inaccessible to public inspection; and the product is in principle the property of the enterprise, which has free disposal over it. On these points system-related differences become apparent, and it is at least questionable whether legal reforms in the areas of co-determination and ownership can bring about any major changes.

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SECTION B. I & II

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